

**CITY OF MARION
AUDIT COMMITTEE MEETING
7 FEBRUARY 2012**

**REPORT RELATING TO:
Excellence in Governance**

Originating Officer: Vincent Mifsud, Manager Finance
Director: Jeff Rittberger, Director Governance
Subject: External Audit Tender
Reference No: AC070212F6.1
File No: 7.81.2.130

If the Audit Committee so determines, this matter may be considered in confidence under Section 90 (3)(d) of the Local Government Act 1999 on the grounds that the report details commercial information of a confidential nature.



Mark Searle
Chief Executive Officer

RECOMMENDATION:

1. That pursuant to Section 90(2) and (3)(d) of the Local Government Act 1999 the Council orders that all persons present, with the exception of the following persons Mark Searle (Chief Executive Officer), Jeff Rittberger (Director Governance), Kathy Jarrett (Manager, Strategy & Organisational Excellence), Vincent Mifsud (Manager Finance), and Tim Hoggan (Senior Contracts Officer) be excluded from the meeting as the Committee receives and considers information relating to the tender for the provision of external Audit Services upon the basis that the Committee is satisfied that the requirement for the meeting to be conducted in a place open to the public has been outweighed by the need to keep consideration of the matter confidential given the information is of a commercial nature.

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STRATEGIC OBJECTIVES:

Excellence in Governance

EG1 Apply the principles of business excellence to achieve the best practice in governance.

EG3.2 Ensure adequate resourcing of structures and systems of independent review e.g. Audit Committee, internal audit, Human Synergistics, Business Excellence

EXECUTIVE SUMMARY / REPORT OBJECTIVE

Section 128(2) of the Act stipulates that 'The auditor will be appointed by the council on the recommendation of the council's audit committee'.

In December 2011, the City of Marion used a selective tender process in issuing an invitation to tender to nine firms for the provision of external Audit Services for a period of 5 years. These firms were selected on the basis that they had the capability and capacity to conduct this type of audit and/or have existing local government knowledge and experience.

A Tender Evaluation Team (TET) was established to review tenders submitted and prepare a recommendation for consideration by the Audit Committee.

The objective of this report is to provide details of the tender assessment outcomes and to seek the Audit Committee's recommendation (to Council) that Deloitte be appointed as the City of Marion's service provider in the delivery of external Audit Services.

RECOMMENDATIONS:

The Audit Committee recommends to Council:

- 1. That Deloitte be appointed as the City of Marion's service provider in the delivery of external Audit Services for a period of 5 years, commencing with the audit for the financial year ending 30 June 2012**
- 2. In accordance with Section 91(7) and (9) of the Local Government Act 1999 the Committee orders that this report, the minutes arising from this report and any other information distributed at the meeting having been considered in confidence under Section 90(2) and (3)(d) of the Act be kept confidential and not available for public inspection for a period of 12 months from the date of this meeting. This confidentiality order will be reviewed at the General Council meeting in December 2012.**

DUE DATES:

- | | |
|---|------------------|
| 1. Recommendation to Council re appointment of Deloitte | 7 February 2012 |
| 2. Council consideration of recommendation | 14 February 2012 |
| 3. Contract commencement | 20 February 2012 |

BACKGROUND

Over the past 5 years, the City of Marion's external audit services has been provided by KPMG. The contract for services with KPMG expired following the completion of the audit for the financial year ending 30 June 2011.

Council is required to go to tender for the provision of external Audit Services in accordance with the Local Government Act 1999.

At its meeting on 1 December 2011, the Audit Committee supported the recommendation that a selective tender process be undertaken to source the provision of external Audit Services and provided feedback in regards to some suggested minor edits to the proposed tender documentation. These edits were appropriately incorporated in the tender documentation, which was subsequently issued on 6 December 2011.

DISCUSSION

Tenders Submitted

At the close of tenders, formal tender box conditions were maintained, and three (3) firms submitted proposals for the provision of external Audit Services to the City of Marion.

Details of the tenders received are as follows:

Name of Firm Invited to Tender	Tender Submitted
▪ [REDACTED]	✓
• Deloitte	✓
▪ [REDACTED]	Declined
▪ [REDACTED]	✓
▪ [REDACTED]	x
▪ [REDACTED]	x
▪ [REDACTED]	Declined
▪ [REDACTED]	Declined
▪ [REDACTED]	x

Tender Evaluation Team ('TET')

In order to evaluate the tenders, an Evaluation Team was established comprising:

Vincent Mifsud Manager Finance
 Kathy Jarrett Manager Governance
 Tim Hoggan Senior Contracts Officer

This composition was considered appropriate as all members of the team had previously been involved with program evaluation activities and were cognisant of the City of Marion's expectations from this function.

All members of the TET signed conflict of interest / confidentiality forms as part of their involvement in the evaluation process.

Evaluation Criteria

Prior to the opening of any tender responses, the TET established the tender assessment criteria and weightings.



These are summarised below and are reflected in the assessment results shown later in this report. A more detailed breakdown is provided at Appendix 2 for information.

Criterion	Weighting
Capability Including previous experience, knowledge of LG Act, management systems, insurances, referees, skills, quality of reports, value added services, continuity of senior staff	35%
Capacity Including depth and breadth of human resources, financial resources, availability	22%
Methodology Including compliance with tender, technical proposal, partnership approach	28%
Price	15%

Tender Assessment - Scoring

In order to assess the proposals, each member of the TET individually scored the tenders against the evaluation criteria. The Team then met to discuss the strengths and weaknesses of the tenders, review individual scores and reach agreement as to the score for each tenderer against the various criteria.

Following the above meeting, a scoring matrix was populated and weighted scores determined for the provision of external Audit services. The following table provides a summary of the outcomes:

Criterion		Deloitte	
Capability – 35%	21.7	26.0	20.0
Capacity – 22%	14.4	15.8	13.4
Methodology – 28%	18.6	20.0	15.8
Cost – 15%	8.6	5.7	7.5
Total	63.3	67.5	56.7

Appendix 1 provides the detailed scoring for each tender.

Tender Assessment – Observations and Considerations

Based on the above scoring, the following order of tenderers is discerned:

1. Deloitte
2. [REDACTED]
3. [REDACTED]

Brief comments on these tenders are:-

Deloitte

- Very good local government experience, including large SA and NT local government bodies
- Clear understanding of the City of Marion’s expectations in performing the audit
- Extensive resourcing capabilities locally and nationally that come with a Big 4 firm
- Very good and relevant experience, including local government, with audit partner and senior audit staff
- Ability to provide value added services
- Strong evidence of a partnership approach

[REDACTED]

- Some local government experience with smaller councils, plus other government experience (LGA, LGCS, DTEI and other State departments)
- Involvement with SA Local Government Auditor Group (SALGAG)
- Commitment to maintain at least senior staff each year
- Good understanding of the City of Marion’s expectations in performing the audit
- Evidence of engagement approach, but no specifics as to how this is achieved

[REDACTED]

- Some local government work, mostly regionals
- Proposed Partner is the SALGAG Chairman, however no audit team was specified as required
- General commitment to maintain senior staff and open to discuss this
- Proposed audit timeframes did not match the City of Marion’s expectations in performing the audit
- Indications of engagement approach

Tender Assessment - Outcomes

As can be seen from the scoring of tenders, the proposal from Deloitte was the strongest and was assessed as being the preferred tender.

However, as a matter of due diligence and process the TET determined to shortlist Deloitte and [REDACTED], to provide each with the opportunity to elaborate (via presentation) on their model of service delivery, approach and understanding of the City of Marion’s expectations in performing the audit. In making their presentations, the TET asked each firm to address:-

1. Detail how your firm will satisfy the requirement for continuity of staff, and the depth and experience of staff engaged to perform the services.
 - Please advise of any contingency arrangements that are proposed
 - **Specific for Deloitte** - Please advise details including CV of the proposed Senior Auditor (Experienced Audit Analyst)
2. Including offers noted in your submission, please discuss in detail what you can provide in terms of Value Added service offerings to the City of Marion, should we engage your firm to perform the Services
3. Outline your understanding of the requirement to meet our expected timelines and attendance at non-negotiable meetings, including attendance outside of core business hours.
4. Provide an overview of your approach to transition from the existing service provider. How will your firm build a partnership approach? What are the key elements and how are they interrelated? Who do you see are the key parties/stakeholders, and how does your firm propose to engage with them?
(**Note:** This question also facilitated strong discussion in regards to the importance of the external auditors meeting with and partnering with our internal auditors in terms of endeavouring to provide an effective and efficient external audit program)

In addition the following points of clarification were sought from each firm:-

Deloitte

- Please advise the application of the limitation of liability. Is the ten times the fee paid to be on a per annum basis, or multiplied by the 5 year aggregate?
- In terms of liability, what is the basis of your engagement with existing Local Government clients?



- Please advise your firm's position on administrative, incidental, and "out of pocket" expenses
- Discussion is requested in relation to your firm's approach to the proposed fee, the discounted rate offer, and the fixing of fees for each year without any review option.

Following the above presentations, the TET validated the confirmation of Deloitte as the preferred tenderer on the basis that they provided a highly professional and detailed presentation that:-

- verified their ability to more than adequately meet all of the City of Marion's expectations in performing the audit,
- outlined that their audit approach will include meeting with and proactively working with our Internal Auditors (PKF) in order to assess what level of reliance can be placed on internal audit work in determining the scope of the external audit,
- demonstrated a very strong partnership approach and organisational culture.

Please note that a copy of the proposals from both Deloitte and [REDACTED], together with their presentations, will be available at the Audit Committee meeting for review by Members if required.

The TET is recommending the engagement of Deloitte on the basis that they:

- Showed a clear understanding of who the City of Marion's key stakeholders are and detailed the approach they would take in engaging with them.
- Clearly demonstrated an understanding of the City of Marion's requirements in terms of:-
 - attendance at Audit Committee and Council meetings as required,
 - desired audit timeframes,
 - depth of relevant experience and continuity of senior audit staff (ie. Partner, Audit Manager and Experienced Analyst).
- Provided a very specific and clearly thought through contingency plan of experienced senior staff with relevant Local Government experience, should the need arise.
- Have extensive local and national resources available to provide a high level of value added services.
- Provided a clearly defined and detailed transition plan from our previous auditors, KPMG, including meeting and partnering with our internal auditors PKF.
- Demonstrated a very strong partnership approach.

Referees

Following the presentations and verification of Deloitte as the preferred tenderer, feedback from 3 referees was also gathered as a final measure of assurance in recommending Deloitte as the preferred tenderer. Questions asked of the referees included:

- What is the quality of your relationship and the level of service provided by Deloitte? Give a rating out of 10?
- Provide comment on the continuity of staff, and the depth and experience of staff engaged by Deloitte to perform the services.
- What is your experience with Deloitte attending your Audit Committee meetings in person?
- Have you encountered any problems in regards to Deloitte's ability to meet agreed timeframes?
- How would you assess Deloitte's capability to provide value added services?

- Have Deloitte displayed a good understanding of who your key stakeholders are and what approach do they take to engage with them? Do they build a partnership approach?

The feedback from all referees was very positive and, amongst other things, confirmed:-

- excellent quality and experience of staff at the senior levels
- a very high level of ongoing service and support
- a strong partnership approach with a desire to work with their clients for a common goal

Conditions of Contract

Detailed examination of the tender submitted by Deloitte has shown that it fully conforms to the City of Marion's Conditions of Contract.

CONCLUSION:

It is the view of the TET that the submission from Deloitte has the greatest potential to meet the needs of the City of Marion in delivering external Audit Services.

Appendix 1 – Tender Evaluation Criteria, associated weightings and scoring guide

Documents available at the Committee meeting:

- Full copy of tender documentation
- Copy of presentations made by Deloitte and [REDACTED]

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Evaluation of Tender CC201190 - Provision of External Audit Services											APPENDIX 1		
	Link to Tender Schedule	Weight %	Raw Score (out of 10)	Weighted Score	Comments	Deloitte Raw Score (out of 10)	Weighted Score	Comments	Raw Score (out of 10)	Weighted Score	Comments		
Capability		35%		21.7			26.0			20.0			
Previous experience undertaking similar work	4	8%	6.0	4.8	Some LG exp, LGA, LGCS, DTEI & other State depts	8.0	6.4	Good LG exp with major councils in SA & a Big 4 firm	6.0	4.8	Some LG work, mostly regionals, State & AG work, NRM boards, Country Health SA		
Knowledge of L.G Act and pending changes	4	5%	7.0	3.5	Involvement with SALGA, note changes, acknowledge requirements of Act to be met	6.0	3.0	mention of requirements and pending changes	7.0	3.5	SALGA Chair, audit in accordance with Act & other legislated requirements		
Management Systems (OHS, EMS, Quality) and Insurances	10, 11 & 12	2%	7.0	1.4	Internal reviews, Quality Control manual & other required standards	8.0	1.6	Self insured workcover, inhouse QMS & reviewed	6.0	1.2	QC manual, limited details on other		
Quality / User friendly reports	12	5%	6.0	3.0		7.0	3.5		6.0	3.0			
Value Added Services	Various	5%	6.0	3.0	Info sessions, newsletter, website access	7.0	3.5	Invites to information sessions and 6 monthly updates	5.0	2.5	Desktop valuations, other training & consultation		
Skills, qualifications and experience of nominated personnel. Degree and continuity of senior staff involved in the contract	8.2	10%	6.0	6.0	Commitment to maintain at least senior personel each year. Partner Big 4 exp, good experience across nominated team	8.0	8.0	Partner extensive exp, very good exp for nominated personnel. Snr Auditor? No details. Option of offshore processing ?	5.0	5.0	Partner is Chair of SALGA, commitment to maintain senior staff or discuss, general exp across other nominated staff		
Capacity		22%		14.4			15.8			13.4			
Availability to meet response times, including attendance at required meetings, and proposed schedule	7	10%	6.0	6.0	Acknowledged timeframes and requirement to attend key meetings	6.0	6.0	Process acknowledges requirement to meet AC & present, and timeline	6.0	6.0	Commitment to meet AC, general acknowledgement of timelien & requirement to meet AC and Council		
Staff - resources - access to breadth & depth of personnel	6.1 & 8.1	10%	7.0	7.0	3 registered auditors, 8 exp audit staff, 6 with recent LG exp, 45 FTE's	8.0	8.0	27 partners in Adelaide, 3 audit partners & 50 staff in audit servcies, 340 FTE's in SA, 5400 staff in Australia	6.0	6.0	3 registered auditors, 13 FTE incl 2 audit mgrs, 38 FTE		
Financial Resources - organisational sustainability	9	2%	7.0	1.4	approx \$6m t/o, mid tier firm	9.0	1.8	\$900m+ t/o, big 4 firm	7.0	1.4	approx \$4m t/o, mid tier firm		
Methodology		28%		18.6			20.0			15.8			
Compliance with Tender including attendance at required meetings and agreement to key dates	3 & 7	8%	7.0	5.6	Attend audit comm (AC) meeting prior to balance date, meet with AC discuss findings, timeline outlined, meets requirements	5.0	4.0	Meets key dates & meeting requirements. Considerabel issue of NC with IP and Liability	6.0	4.8	Commitment to meet AC, Council, and timeline. Timeline does not match requirement provided		
Technical Proposal - approach to audit, incl adoption of constructive style	7	10%	7.0	7.0	Risk based IT assisted approach, clear steps, standard	8.0	8.0	review based on risk profile, present plan to AC for approval, debrief to identify process improvemetns, IT assisted	6.0	6.0	Risk based approach, IT assisted		
Partnership approach / advisor based proposed methodology outlining the approach to deliver the Services	7	10%	6.0	6.0	General communication, engaging, but no specifics	8.0	8.0	Mentions regular meetings and updates, seek feedback & input, and conclusion	5.0	5.0	Engagement of staff & AC, customer responsive service		
Cost													
Net cost of undertaking the work	13	15%	5.7	8.6		3.8	5.7		5.0	7.5			
		100%		63.3			67.5			56.7			
TENDER EVALUATION SCORING GUIDELINES													
Scoring is out of 10													
cor	Descriptor	Comment											
10	Excellent +	Outstanding offer, greatly exceeds criterion											
9	Excellent												
8	Good +	Very good offer, exceeds criterion											
7	Good												
6	Satisfactory +	Good offer, no deficiencies, meets criterion											
5	Satisfactory												
4	Unsatisfactory												
3	Unsatisfactory -												
2	Poor												
1	Poor -												
0	Provided no information												

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Evaluation of Cost				APPENDIX 1			
	Deloitte						
Year 1	\$ 24,000	\$ 35,896	\$ 24,000				
Year 2	\$ 34,000	\$ 48,472	\$ 40,000				
Year 3	\$ 34,850	\$ 49,831	\$ 41,400				
Year 4	\$ 35,721	\$ 51,252	\$ 42,800				
Year 5	\$ 36,614	\$ 52,824	\$ 44,300				
Total costs	\$ 165,186	\$ 238,275	\$ 192,500				
Minimum	\$ 165,186	check formula					
Median	\$ 192,500						
Scoring based on Median Cost (out of 10)	5.7	3.8	5.0	USE THIS SCORING			
	Deloitte						
	# hrs	%	# hrs	%	# hrs	%	
Partner	98	9.6%	76	6.8%	140	11.6%	
Audit Manager	155	15.2%	203	18.2%	215	17.9%	
Senior Auditor / Audit Supervisor	406	39.8%	665	59.7%	387	32.2%	
Audit Officer / Audit Senior	360	35.3%		0.0%	461	38.3%	
Graduate		0.0%	100	9.0%		0.0%	
Other		0.0%	69	6.2%		0.0%	
Total Hours	1019	100.0%	1113	100.0%	1203	100.0%	
Hourly Rates	Deloitte						
Partner	\$ 340		\$ 475		\$ 220		
Audit Manager / Audit Associate	\$ 250		\$ 225		\$ 185		
Senior Auditor / Audit Supervisor	\$ 180		\$ 170		\$ 165		
Audit Officer / Audit Senior	\$ 150				\$ 90		
Graduate			\$ 90				
IT Partner			\$ 475				
IT Manager			\$ 225				
Secretarial			\$ 90				